

City of Durham

# Audit Services Department

## The Director's Corner

### The Tree



From the Institute of  
Internal Auditors

**Transparency:** Internal auditors monitor economic transactions and ensure “things are as they should be” - transparent.

**Reliability:** Internal auditors strive for integrity in their work to provide assurances about the validity of their reports.

**Effectiveness:** A well-managed City is efficient; the “twin to effectiveness”. The strength of the internal controls in an organization, which is a focal point of internal auditors, is a factor in the effectiveness of the organization.

**Ethics:** Internal auditors not only adhere to a code of professional conduct, they also monitor the ethical climate of the organization and bring issues of concern to the attention of senior management.

## What is the Purpose of Internal Auditing

The Audit Services Department's internal audit function provides a level of assurance that serves to protect and preserve this organization's brand equity and enhance the public trust. As Warren Buffet (DeMars, 2012, p. 15) stated, “It takes 20 years to build a reputation and five minutes to ruin it”. All employees- management and non-management staff have a responsibility to be accountable for ones' actions; especially in light of a fairly recent study that revealed that local government management are the least likely of all of the levels of government to know about their ethics risks (Ethics Resource Center, 2007). As Nan DeMars (2012) noted, we should all take care of our organization and its customers because not doing so jeopardizes our own livelihood. When faced with a challenge, look for a way, not a way out. A sound internal control structure (a way) in our organization requires a professional relationship between each employee and the organization to safeguard the assets that the residents of this City have entrusted us to protect.

### References:

DeMars, A. (2012). Not anymore. *OfficePRO*, July 2012, p. 12-15.

Ethics Resource Center. (2007). National government ethics survey: An inside view of public sector ethics. *ERC*, p. ix.

The Institute of Internal Auditors. (2012). What is internal auditing...tree. *The Internal Auditor*, March-April. Retrieved on July 19, 2012 at: [www.theiia.org](http://www.theiia.org).

*“When faced with a challenge, look for a way, not a way out.”*

*Author Unknown*

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## Why Ethics Matters | Case Study

In January, 2012 local government employee Lot Tery was the manager on a job responsible for estimating supplies on a job. He was a long term employee who estimated consumable supplies for major projects at work. Mr. Tery's organization had an accounting system to account for the labor and

material supplies used on each job, but Mr. Tery had never been fully trained on how to use that system. As such, information was not entered correctly. Mr. Tery estimated on a particular job that 20 linear feet of copper tubing were needed; however, only 10 feet were actually used. At the end of that job, Mr. Tery entered the

actual copper tubing into the system that was requested at the beginning of the job. He put the left over copper tubing in his truck, which he later sold for cash money. What are the ethical issues in this case?

(Note: This case study is fictitious and does not reflect any real incident at the City).



### Internal Controls

## Case Study Answer | Findings

While consumable supplies were not considered inventory, as a best practice, the consumables still should have been reconciled or accounted for in some way. Everyone using the account-

ing system should have been trained and a record maintained of that training to be able to hold employees accountable for the requirements of their jobs. Finally, Mr. Terry should have

returned the excess material to the work place.

### Fraud, Waste & Abuse

REPORTING IS AS EASY AS...

CALLING

919-560-4213, Press 3

ONLINE

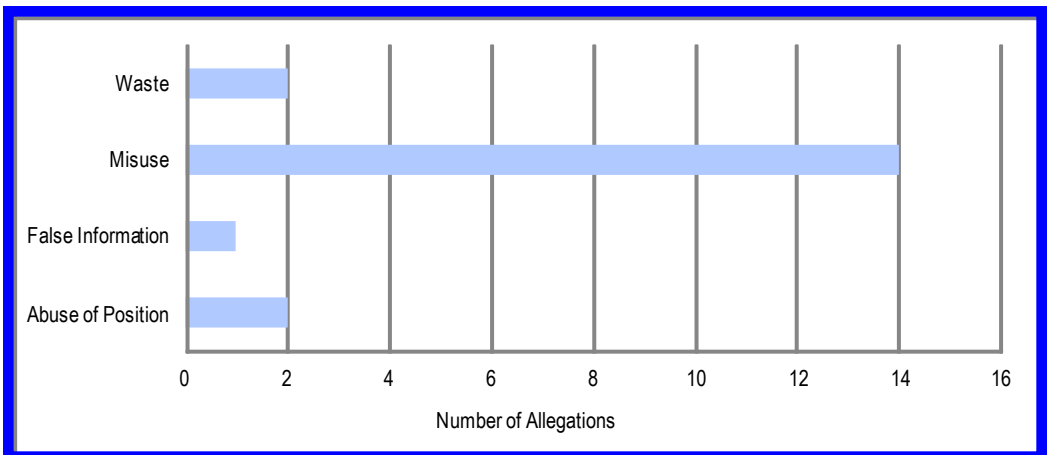
[www.durhamnc.gov/departments/audit](http://www.durhamnc.gov/departments/audit)

MAILING

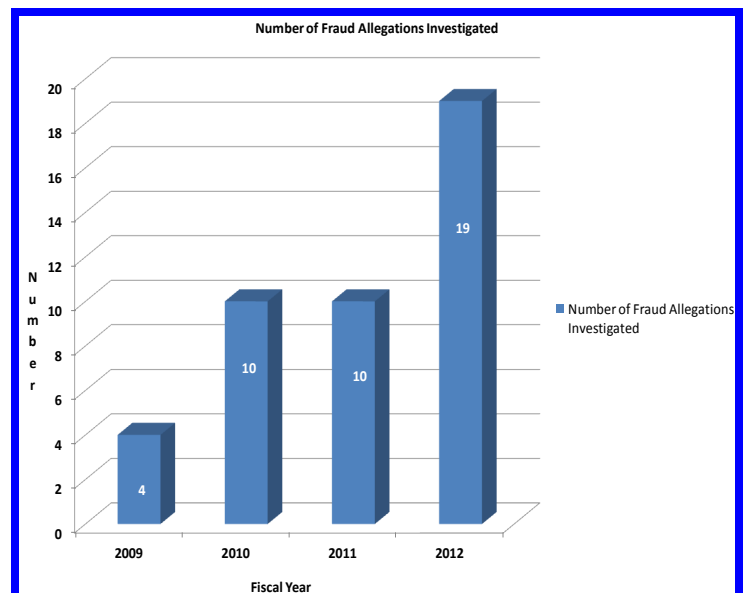
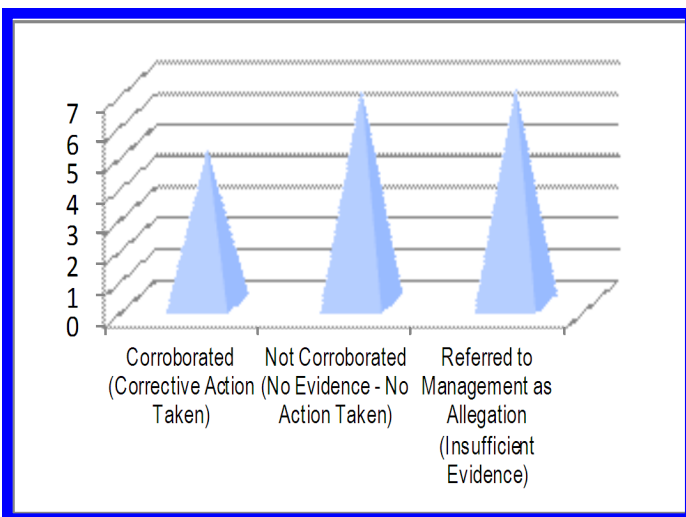


City of Durham  
Audit Services Department  
101 City Hall Plaza, Ste. 1700  
Durham, NC 27701

## City of Durham | FY 2011-2012 Allegation Types



## City of Durham | FY 2011-2012 Number of Allegations/Actions



## Meet Your Audit Staff

### Craig Umstead, CFE, CFSA

Craig Umstead is a native of Durham, North Carolina. He received his Bachelor's Degree from Winston-Salem State University. He holds professional designations as a Certified Fraud Examiner and a Certified Financial Services Auditor. Craig is an experienced financial and operational auditor, compliance officer, risk manager, operations manager, and fraud examiner. He has broad private and public industry experience supported by his knowledge of for-profit, non-for-profit accounting and business operations including fund accounting principles and processes.

His volunteer activities currently include being the State Public Affairs Chairman for the March of Dimes Birth Defects Foundation in North Carolina, an alumni member of the United States Junior Chamber of Commerce (U.S. Jaycees), Lions Club International Board member, Scout Troop Leader, and High school sports mentor and trainer. He has received the State of North Carolina Governor's Award for Volunteer Service, as well as received the County Government award for Volunteer Service.

### Alex Terry, MPA, CGAP

Alex Terry has been working with the City of Durham since August 29, 2011. He has lived in North Carolina for 22 years. Alex received his Bachelor of Arts in Political Science at UNC in 2009 and a Master of Public Administration from UNC's School of Government in May 2011 where he learned the critical thinking and analytical tools necessary to be an Internal Auditor. In August 2012 Alex became a Certified Government Auditing Professional.

Alex has worked in a variety of government organizations. He was a legislative intern at the North Carolina General Assembly in the summers of 2007 and 2009 and was a Housing Inspections intern for the Town of Chapel Hill in winter of 2008. In the summer of 2010 Alex spent his Masters internship working for the Catawba County government, where he ran performance measures for departmental programs (among other job duties).



Left to Right... *Craig Umstead, CFE, CFSA* | Sr. Internal Auditor; *Patsy Lockamy* | Executive Assistant; *Sonal Patel, CPA, CIA* | Assistant Director of Audit Services; *Germaine Brewington, MBA, CPA, CFE* | Director of Audit Services; *Alex Terry, MPA, CGAP* | Internal Auditor; *Asha Guta* | Audit Assistant

Although he is now living in Durham, Alex remains a **die-hard UNC Tar Heels fan**. He enjoys watching sports, biking and running, hanging out with friends, and going to concerts.

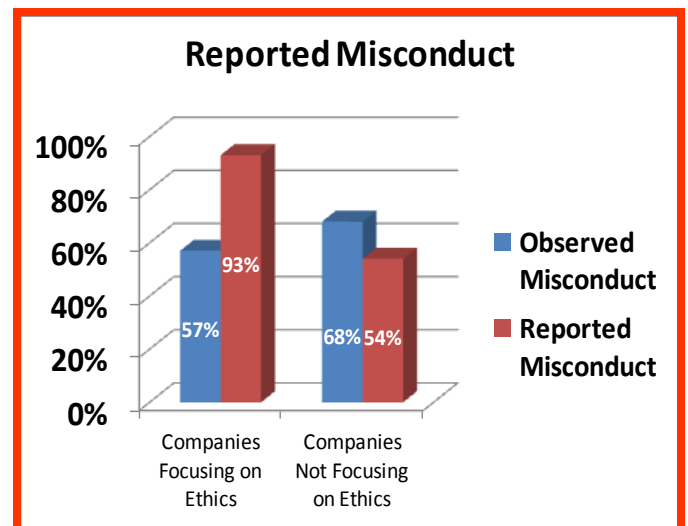
### Asha Guta, Audit Assistant

Asha Guta has been exposed to multicultural environments at a very young age. She graduated from Campbell University with a BBA in Accounting. She also has Associate degrees in Accounting and Business Administration from Durham Technical Community College. She is a Swahili native speaker. In the past, she has worked in the disciplines of tax, general accounting, and payroll. Asha has enjoyed working for the City of Durham in the Departments of Audit Services and Water Management.

In her spare time Asha likes spending time with family and friends, listening to music, dancing, working out, and traveling.

Asha is a member of North Carolina Association of Certified Public Accountants, Sister Cities of Durham and Toastmasters International.

The Ethics Resource Center did a study in which they determined that companies that focus on ethics have a higher incidence of reported misconduct. Another way to look at this is that an organization with a culture of high ethical standards will see an increase in reported incidents because employees feel compelled and empowered to protect the organization. After all, protecting the organization enhances the livelihood of each employee. The fraud waste and abuse reported activity through the City's Hotline since City Manager Tom Bonfield joined the City has almost doubled. That's a great trend. See the chart to the left.



From the Ethics Resource Center

## Just For Fun!

This word scramble focuses on ethics. The words are listed horizontally, backwards, diagonally, and vertically.

Enjoy!



O Q Y Y Q P L I M A H R U D K V W N  
W R H T F S X N A O E P O S M T A H  
H A Q I E E E T S P A A J S G N S I  
V T F L Q S X E C Z R C X E O I T K  
H I Z I U O O R I Y E C L N D A E I  
P O G B P B Q N H C S O I E V L A X  
S N A A R W R A T N P U L V P P S X  
Z A S I E E I L E E O N E I V M V W  
Q L P L S N K C F R N T Z T A O F D  
V I L E S I E O O A S A W C P C C U  
F Z V R U L Y N E P I B O E M F I J  
A A F S R T J T D S B I E F N W L U  
V T J L E O R R O N I L U F D L D C  
C I D P Y H K O C A L I A E X L U J  
D O A Z F G M L Q R I T X H N Q A R  
T N T N C M K S Y T T Y E W R L R H  
B B U K Y S Q R E S Y M M F F I F I  
A J U B N O I T P E C R E P Y X S E

Abuse  
Accountability  
Code of Ethics  
Complaint

Durham  
Effectiveness  
Fraud  
Hotline

Internal Controls  
Perception  
Pressure  
Rationalization

Reliability  
Responsibility  
Transparency  
Waste

## The Gray Area

Ethics is not always black and white; a lot of times it is gray. The City of Durham is a diverse and dynamic organization because of the varied backgrounds of its 2,400+ employees. While that fact makes for a stimulating work environment, it can also pose problems when you start talking about the ethical culture of the organization. Each individual brings to his or her job their own set of values so it is important for there to be a concerted, continuous and unambiguous conversation about the "gray area"-what ethics and ethical behavior are; and what is expected of the staff. This conversation is needed because our perceptions and perspectives on what ethical behavior is varies due to our backgrounds and life experiences that we bring to the job. Just for fun, what images do you see in the pictures above? We each see something,

but what we see is different. What we fail to see we could think of as our blind spot. Blind spots as they relate to ethical behavior can be risky, especially in the work place. Training and constant reminders of management's expectations can help correct those blind spots. Please watch for the Fraud Prevention Awareness Symposium – Front Line scheduled for October 30, 2012. This event is sure to be fun, interactive and informative; and designed specifically to clear up some of that "gray area".



Baby & Man & Woman  
Viewing Lake

Man Playing Saxophone  
& Woman's Face

## The Ten Critical Thinking Errors of Unethical Behavior

- Rationalization
- Instant Gratification
- Disregard for Authority or Rules
- Being Overly Optimistic
- Entitlement
- Lack of Remorse
- Peer or Financial Pressure
- Inadequate Fear of Punishment
- Egoism
- Diffusion of Harm